

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2019

Docket No. ACR2019

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-7 OF CHAIRMAN'S INFORMATION REQUEST NO. 11

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 11, issued on February 4, 2020. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. In its FY 2019 ACR, the Postal Service states that “a shift among parcels costs resulted from new shape-based data collection procedures.” FY 2019 ACR at 68 (footnote omitted). In its response to Chairman’s Information Request No. 4, the Postal Service confirms that the new shape-based data collection procedures affect all of the Postal Service’s products with parcel-shaped pieces and provided a list of all products with costs affected by the new shape-based data collection procedures.¹ The description included with the list indicates that the new shape-based data collection procedures affects the distribution of mixed-mail In-Office Cost System (IOCS) tallies for city carriers. Response to CHIR No. 4, question 9.a. Under the current methodology, the distribution of mixed-mail IOCS tallies for city carriers is associated with the development of the in-office direct labor cost distribution key.² Under the current methodology, the Postal Service states it uses the “ALBCARMM” (city carrier mixed mail cost distribution) SAS program to distribute mixed-mail costs to direct mail activity codes.³
 - a. Please confirm that the FY 2019 IOCS shape-based data collection procedures affect only the mixed-mail to direct mail activity codes process in the development of the in-office city carrier direct labor cost distribution keys. If not confirmed, please describe any other IOCS craft or in-office inputs or process modified due to the new IOCS shape-based data collection procedures.
 - b. In the Postal Service’s list of products affected by the new IOCS shape-based data collection procedures, the Postal Service lists the international mail products affected. Response to CHIR No. 4, question 9.a. In the “ALBCARMM,” programming code, the section of SAS code that classifies activity codes into Cost and Revenue Analysis (CRA) product class categories for non-international products align with the list provided in the Response to CHIR No. 4, question 9.a.⁴ However, for the international mail products affected, the “ALBCARM” program groups all international

¹ Responses of the United States Postal Service to Questions 1-41 of Chairman’s Information Request No. 4, January 24, 2020, question 9.a. (Response to CHIR No. 4).

² The city carrier in-office direct labor (as identified in the IOCS that the sampled carrier was handling mail, equipment with mail in it or mail forms) distribution key is used to distribute city carrier in-office support overhead total cost to products and is also included as part of the city carrier piggyback factor calculation. See Library Reference USPS-FY19-32, December 27, 2019, folder “B Workpapers,” Excel file “CS06&7-Public-FY19.xlsx,” tab “Input CS6,” cell D31-D77, tab “Output to CRA,” columns “D,” “N,” and “T” and Library Reference USPS-FY19-24, December 27, 2019, Excel file “FY19Public.PB.xlsx,” tab “CityCarriers.”

³ See Library Reference USPS-FY19-37, PDF file “USPS-FY19-37.IOCS.Preface.pdf,” at 12; folder “USPS-FY19-37,” folder “SASPrograms,” file “ALBCARMM” (ALBCARMM).

⁴ Compare Response to CHIR No. 4, question 9.a. with the “ALBCARMM” file, section of code beginning with “proc format.”

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costs together and, as a result, the same detailed international product categories listed in the Response to CHIR No. 4, do not appear to be output directly to the detail as that shown in the Response to CHIR No. 4, question 9.a. from the "ALBCARMM" processing steps.⁵ Please describe the process for distributing mixed mail costs to the level of international product level detail shown in the list of affected international products provided in the Response to CHIR No. 4, question 9.a.

- c. The list of all products affected by the shape-based data collection procedures also includes letters and flats products. Response to CHIR No. 4, question 9.a. Please describe how the mixed-mail to products distribution process would have "shifted" costs within parcels costs and also affected both letters and flats products.

RESPONSE:

- a. Confirmed.
- b. The amount of city carrier in-office costs assigned from mixed mail to the aggregated CRA class for International ('185 International') is affected by the shapes of international mail handled by carriers. For example, the total costs redistributed from the mixed mail activity code for letter-shaped mixed mail (5610) will be assigned to the overall International product in proportion to the letter-shaped International products. Because the total costs for the aggregated International CRA product are affected, the costs for each individual International product are also affected. Costs are assigned to individual International products in proportion to their direct tally costs within the aggregated International product group.

⁵ The ALBCARMM program outputs one CRA class (185) for international products.

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- c. The introduction of the shape questions affected the costs for all shapes of mail. For example, to the extent that a carrier was identified as handling only letter-shaped mail rather than mixed-all-shapes, costs are now redistributed only to letter-shaped products. However, the largest impact on products occurred for parcels. In most of the tallies affected by the new shape questions, where a specific mailpiece could not be obtained, carriers were frequently handling only parcel-shaped pieces, and costs were correspondingly redistributed only to parcel-shaped, rather than to all, products.

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2. Please refer to the FY 2018 and FY 2019 in-office city carrier direct labor cost distribution keys filed in Docket No. ACR2018 Library Reference USPS-FY18-32 and Library Reference USPS-FY19-32, folder "B Workpapers," Excel files "I_FORMS-Public-FY18.xlsm," and "I_FORMS-Public-FY19.xlsm" tabs "I-CS06.0.2.2 Input."⁶ The following questions relate to differences between the FY 2018 and FY 2019 in-office city carrier direct labor cost distribution keys.
- a. Between FY 2018 and FY 2019, city carrier in-office direct labor costs for total Domestic Competitive Mail and Services increased by approximately \$70.5 million.⁷ Please discuss the reasons for the increase and quantify if possible, to what extent the increase is due to the changes made in the FY 2019 IOCS shape-based data collection procedures.
 - b. Between FY 2018 and FY 2019, city carrier in-office direct labor costs for USPS Marketing Mail Flats (CRA Class 26) decreased by approximately \$37.8 million.⁸ Please discuss the reasons for the decrease and quantify if possible, the extent the decrease was due to the changes in the shape-based data collection procedures.
 - c. Between FY 2018 and FY 2019, city carrier in-office direct labor costs for USPS Marketing Mail Letters (CRA Class 25) increased by approximately \$31.3 million.⁹ Please discuss the reasons for the increase and quantify if possible, the extent the increase was due to the changes in the shape-based data collection procedures.
 - d. Between FY 2018 and FY 2019, city carrier in-office direct labor costs for USPS Marketing Mail Carrier Route (CRA Class 23) decreased by approximately \$22.6 million.¹⁰ Please discuss the reasons for the decrease and quantify if possible, the extent the decrease was due to the changes in the shape-based data collection procedures.

⁶ See Docket No. ACR2018, Library Reference USPS-FY18-32, December 28, 2018, folder "B Workpapers," Excel file "I_FORMS-Public-FY18.xlsm," tab "I-CS06.0.2.2 Input," (FY 2018 in-office city carrier direct labor cost distribution keys) and Library Reference USPS-FY19-32, December 27, 2019, "I_FORMS-Public-FY19.xlsm," tab "I-CS06.0.2.2 Input" (FY 2019 in-office city carrier direct labor cost distribution keys).

⁷ Compare FY 2018 in-office city carrier direct labor cost distribution keys, tab "I-CS06.0.2.2 Input," cell E55 with FY 2019 in-office city carrier direct labor cost distribution keys, tab "I-CS06.0.2.2 Input," cell E55.

⁸ *Id.* cell E26.

⁹ *Id.* cell E25.

¹⁰ *Id.* cell E24.

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RESPONSE:

Please see the electronically-attached workbook ChIR11.Q2.Response.Attach.xlsx for quantitative analysis of the impact of the new shape-based data collection procedures on direct labor cost distribution keys for in-office city carriers.

- a. The new shape-based data collection procedures contributed \$64M of the \$70M increase in costs for Domestic Competitive Mail and Services.
- b. The new shape-based data collection procedures contributed a reduction of -\$18M of the -\$38M decrease in costs for USPS Marketing Mail Flats.
- c. The new shape-based data collection procedures contributed a reduction of -\$7M, although costs increased by \$31M for USPS Marketing Mail Letters.
- d. The new shape-based data collection procedures contributed a reduction of -\$15M of the -\$23M decrease in costs for USPS Marketing Mail Carrier Route.

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3. The Postal Service's FY 2019 policy letter for the IOCS data collectors states (for mailpiece shapes in the parking lot): "When there is inadequate time to obtain and record full details about a mailpiece that a carrier is handling in the parking area, new question Q21B3.Cr enables recording of some information about the shape."¹¹ Please describe the process for identifying a mailpiece shape in FY 2018 when there was inadequate time to obtain and record full details about that mailpiece. If no such efforts were made, please explain the reason(s) why not and identify the mailpiece shape or shapes activity codes that would be used under these circumstances.

RESPONSE:

In FY 2018, there were no additional questions when the mailpiece that the carrier was handling could not be obtained. Although recording detailed information about the handled-mailpiece is preferable, sometimes that is not possible; for example, when the carrier is about to leave for their route and cannot be delayed. If the carrier was handling a loose mailpiece, bundle or non-wheeled container (e.g., trays), activity code 5740 (Mixed Mail – Handling single piece) was assigned. If the carrier was handling a wheeled container or combination of handling categories, activity code 5745 (Mixed Mail – Handling container or multiple items) was assigned.

Beginning in FY 2019 Q1, the Postal Service sought to capture some basic additional data that could be recorded quickly under the circumstances

¹¹ Library Reference USPS-FY19-46, folder "ChIR 4 Q 9 IOCS," PDF file "SPLetterFY19#1.pdf," Attachment 3 at 1.

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considered here and that would improve the distribution of handling costs to products.

In addition, the F-45 Handbook for IOCS has the following instruction regarding mailpiece availability:

Note: Although every effort is made to obtain the appropriate mailpiece or form, situations might arise when you are unable to do so. If you are unable to obtain the appropriate mailpiece or form, do not substitute another mailpiece or form.¹²

¹² Handbook F-45, In-Office Cost System, section 5-6, Mailpiece Availability.

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4. The Postal Service's FY 2019 policy letter for the IOCS data collectors states (for mailpiece shapes in equipment): "When the data collector or respondent is unable to obtain a mailpiece from a carrier who is handling equipment such as a hamper, we now collect information on the shapes of mail within the equipment."¹³ In FY 2018, when the data collector or respondent was unable to obtain a mailpiece from a carrier who was handling equipment, was information on the shapes of mail within the equipment obtained? If not, please explain the activity code(s)¹⁴ that would be used under these circumstances.

RESPONSE:

In FY 2018, when a carrier was handling wheeled equipment, such as a hamper, or a combination of container categories, then information on the shapes of mailpieces was not obtained and mixed mail activity code 5745 (Mixed Mail - Handling container or multiple items) was assigned initially by program ALB040. This would eventually be converted to the final activity code, 5750 (Mixed All Shapes), by program ALB101.

When a carrier was handling a non-wheeled container, such as a letter tray or flat tub where a single mailpiece is usually obtained for sampling, mixed mail activity code 5740 (Mixed Mail – Handling single item) was assigned initially by program ALB040. Although additional information on the type of container handled was also obtained, the shapes of mail handled by carriers sometimes does not correspond to the container type. For example, sometimes there may be letter-

¹³ Library Reference USPS-FY19-46, folder "fy19.46.chir.4.public.data.zip," folder "ChIR 4 Q 9 IOCS," PDF file "SPLetterFY10#2.pdf," Attachment 3 at 1.

¹⁴ In IOCS variable F262 (Final Activity Code). See Library Reference USPS-FY19-37, Excel file "IOCSDataDictionaryFY19.xlsx," and file "MASTER.CODES."

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shaped or parcel-shaped pieces in flat tubs. Therefore, container information was not used in the distribution of mixed mail activity codes to mail products by shape. Similar to activity code 5745, activity code 5740 was also eventually converted to the final activity code 5750 (Mixed All Shapes).

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5. Please refer to Table 1.

Table 1

Selected IOCS City Carrier Mixed Mail In-Office Direct Labor Costs

Selected IOCS Mixed Mail Description (Final Activity Code) ^a	City carrier mixed mail in-office direct labor costs \$ in thousands	
	FY 2018	FY 2019
Standard Mixed Mail (5340)	\$7,974	\$5,342
Letter Shape (5610)	\$4,859	\$86,779
Flat-Size Shape (5620)	\$6,101	\$39,995
Letter and Flat Size (5650)	\$71,166	\$78,991
Irregular Parcels and Pieces and Parcels (5700)	\$504	\$113,652
All Shapes (5750)	\$667,876	\$468,067
Total^b	\$758,481	\$792,825
^a IOCS Final Activity Code in variable F262, IOCS activity codes are listed in Library Reference USPS-FY19-37, file "MASTER.CODES." ^b The sum of the row figures may not add to the total figures due to rounding. Source: Analysis of SAS datasets in Docket ACR2018, Library Reference USPS-FY18-37, folder "USPS-FY18-37.IOCS.zip," folder "USPS-FY18-37," folder "Data," SAS dataset "prcpub18.sas7bdat," and Library Reference USPS-FY19-37, folder "Data," SAS dataset "PRCPub19.sas7bdat."		

- a. Please confirm that the increase in city carrier mixed-mail parcels and irregular parcels and pieces cost between FY 2018 and FY 2019 was due to the changes in the FY 2019 shape-based data collection procedures. If not, please explain the reason(s).
- b. Please confirm that the increase in city carrier mixed-mail letter shape cost between FY 2018 and FY 2019 was due to the changes in the FY 2019 shape-based data collection procedures. If not, please explain the reason(s).
- c. Please confirm that the decrease in city carrier mixed-mail all shapes cost between FY 2018 and FY 2019 was due to the changes in the FY 2019 shape-based data collection procedures. If not, please explain the reason(s).
- d. In the FY 2018 IOCS data, edited (IOCS variable F244) activity code 5745-mixed-mail handling container or multiple items, approximately \$308 million was assigned to the final (IOCS variable F262) activity code 5750-

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mixed-mail all shapes cost for city carriers.¹⁵ In FY 2019, this amount decreased to approximately \$134 million. *Id.* In FY 2018, did the data coder ask about the shape(s) of the multiple items or in the container for all? If not for all, please specify under what circumstances item shape information was collected and not collected.

RESPONSE:

a – c. Confirmed.

d. In FY 2018, even when carriers were handling wheeled containers or combinations of containers, only a single mailpiece (the “top piece”) was requested, and data about that single mailpiece were recorded. However, the top piece may not be representative of the entire contents of a wheeled container; for example, the “top piece” may be a Priority Mail Express piece on the top of a hamper, or even in the carrier’s hand. Therefore these tallies were assigned to activity code 5745 (Mixed Mail – Handling container or multiple items), which was eventually converted to final activity 5750 (Mixed All Shapes). Questions about the shapes of all mail in the container were not asked when a “top piece” has been obtained. In part, this is to help emphasize the importance of always trying to obtain a mailpiece for data recordation, and partly to avoid asking additional unnecessary-appearing questions of respondents who have taken the time to provide detailed data on a mailpiece. There were no changes in tally processing

¹⁵ Analysis of the SAS datasets in Docket ACR2018, Library Reference USPS-FY18-37, folder “USPS-FY18-37,” folder “Data,” SAS dataset “prcpub18.sas7bdat,” and Library Reference USPS-FY19-37, folder “Data,” SAS dataset “PRCPub19.sas7bdat.”

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in FY 2019 compared to FY 2018 in these situations, i.e. when a single "top piece" was recorded. However, for situations where a single "top piece" was not obtained, the data instrument was modified beginning in Q2 of FY 2019 to ask follow-up question about the shapes of mail within wheeled containers or combinations of containers.

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6. In the FY 2018 IOCS data, edited (IOCS variable F244) activity code 5740-mixed-mail handling a single item, approximately \$246 million was assigned to the final (IOCS variable F262) activity code 5750-mixed-mail all shapes cost for city carriers. *Id.* In FY 2019, this amount decreased to approximately \$105 million. *Id.* In FY 2018, did the data coder ask about the shape of the single item for all? If not for all, please specify under what circumstances item shape information was collected and not collected.

RESPONSE:

In FY 2018, activity code 5740 (Mixed Mail – Handling single item) was assigned when a) the carrier was handling loose mail, bundles or non-wheeled containers, but a mailpiece could not be obtained, or b) a mailpiece was obtained, but in circumstances where it might not be representative, such as when handling multiple containers.

Beginning in Q1 of FY 2019, question Q21B03.Cr was added to collect shape information when the carrier was handling a loose mailpiece, but the piece was not obtained for recordation. If shape could be determined, the corresponding shape-based mixed mail activity code was assigned. If shape could not be determined, then activity code 5740 was assigned, as in FY 2018. No changes were made to tally processing in the other circumstances where activity code 5740 would have been assigned.

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7. The Commission's periodic reporting rules require the Postal Service to provide "[s]uccinct narrative explanations of how the estimates in the most recent Annual Compliance Determination were calculated and the reasons that particular analytical principles were followed. The narrative explanations shall be comparable in detail to that which had been provided in Library Reference 1 in omnibus rate cases processed under the Postal Reorganization Act (by July 1 of each year)..."¹⁶ Please refer to the Postal Service's most recent filing of the narrative explanations for the development of its costs by segments and components in FY 2018.¹⁷
- a. For more detail on the city carrier in-office mixed-mail direct labor costs to products distribution process, the Postal Service directs the reader to Appendix C.¹⁸ However, the Appendix C title is listed as "FORMATION OF MAIL PROCESSING DISTRIBUTION KEYS."¹⁹
- i. Is Appendix C applicable to city carriers, clerks, and mail handlers?
- ii. If the answer to question 6.a.i. is yes, please specify which sections of Appendix C are applicable to city carriers.
- iii. If the answer to question 6.a.i. is yes, please specify if Appendix E is also applicable to city carriers.²⁰
- iv. If the answer to question 6.a.i. is no, please specify if Appendix E is the correct reference for the description of the city carriers mixed-mail in-office direct labor costs to products distribution process.

¹⁶ 39 C.F.R. § 3050.60(f).

¹⁷ USPS Report, *Rule 39 C.F.R. Section 3050.60(f) Report for FY2018 (Summary Descriptions)*, July 1, 2018 (CRA Summary Descriptions).

¹⁸ See CRA Summary Descriptions, folder "Rule 39 CFR Sec 3050.60f_ReportFY18.zip," folder "SummaryDescriptionsFY2018.zip," folder "CRA.Summary.Description.FY18," Word file "CS06-18.doc," Section "6-1," at 6-3.

¹⁹ CRA Summary Descriptions, folder "Rule 39 CFR Sec 3050.60f_ReportFY18.zip," folder "SummaryDescriptionsFY2018.zip," folder "CRA.Summary.Description.FY18," Word file "APPC-18.doc," at "C-1."

²⁰ The title of Appendix E is "DISTRIBUTION OF MIXED MAIL COSTS TO DIRECT MAIL ACTIVITY COSTS" and the first sentence under the title states that "Mixed mail costs are distributed to direct mail activity codes by basic function within route type for city carriers." See CRA Summary Descriptions, folder "Rule 39 CFR Sec 3050.60f_ReportFY18.zip," folder "SummaryDescriptionsFY2018.zip," folder "CRA.Summary.Description.FY18," Word file "APPE-18.doc," at "E-1."

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- v. If both Appendix C and Appendix E are not applicable for the city carrier in-office mixed-mail direct labor costs to products costs distribution process, please provide a summary description at the same level of detail for the FY 2019 methodology.
- b. For the response(s) provided in question 6.a.i.-6.a.iv., where applicable, please either provide an updated summary description for the FY 2019 city carrier in-office mixed-mail direct labor costs to products methodology or confirm that the FY 2019 methodology description is the same as that provided in FY 2018.

RESPONSE:

- a.
 - i. No, Appendix C is applicable to clerks and mailhandlers, but not to city carriers. Appendix E is applicable to city carriers.
 - ii. Question not applicable.
 - iii. Question not applicable.
 - iv. Yes, Appendix E is the correct reference for the description of the city carriers mixed-mail in-office direct labor costs to products distribution process.
- b. In the Summary Description for FY 2019 (planned to be filed in July of 2020), the city carrier in-office mixed-mail direct labor costs to products methodology will be updated to refer to Appendix E rather than Appendix C.